



Issue: Number 155
Date: 14 December 2012
Subject: AASB Meeting 128, 12 – 13 December 2012

1. Overview

At this meeting the Board discussed:

- (a) financial reporting by investment entities (see section 2);
- (b) substantive enactment of major tax bills (see section 3);
- (c) IASB projects addressing financial instruments (see section 4) and revenue from contracts with customers (see section 9);
- (d) an issue concerning the application of AASB 10 *Consolidated Financial Statements* to the insurance industry (see section 5);
- (e) the proposals in IASB ED/2012/2 *Annual Improvements to IFRSs 2011-2013 Cycle* (see section 6);
- (f) an update on IFRS Interpretations Committee activities (see section 7);
- (g) draft amending Standards regarding AASB 10 and related Standards, Reduced Disclosure Requirements, and Australian editorial corrections (see section 8);
- (h) a status report on progress with drafting an ED on Income from Transactions of Not-for-Profit Entities (see section 10);
- (i) draft Standards in relation to budgetary reporting by not-for-profit public sector entities (see section 11);
- (j) the submissions received on ED 227 *Proposed Amendments to AASB 1049 – Extension of Transitional Relief for the Adoption of Amendments to the ABS GFS Manual relating to Defence Weapons Platforms* (see section 12);

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- (k) research into the financial statement reporting practices of certain types of lodging entities (see section 13);
- (l) how the conceptual framework might be referred to as a basis for a disclosure framework (see section 14);
- (m) a draft response to the IFRS Foundation's Invitation to Comment *Proposal to Establish an Accounting Standards Forum* (see section 15); and
- (n) a report on the December meeting of the IPSASB (see section 16).

Changes in Board membership are detailed in section 17. Recently approved documents are listed in section 18 and documents open for comment are listed in section 19.

2. Investment Entities

The Board considered a working draft of an ED entitled *Australian Additional Disclosures: Investment Entities (Amendments to AASB 12)*. It decided that the proposed additional disclosures, designed to compensate for the loss of information that would arise from adopting the IASB's amendments to IFRS 10 *Consolidated Financial Statements* relating to investment entities:

- (a) should only apply in respect of controlled investees of an investment entity, and therefore should not apply in respect of associates or joint ventures;
- (b) should be located in AASB 1054 *Australian Additional Disclosures*;
- (c) should include a statement of changes in equity; and
- (d) should apply to both Tier 1 and Tier 2 entities.

In addition, the Board decided not to propose a prescribed format for the presentation of the disclosures.

The ED will be accompanied by two Alternative Views:

- (a) Alternative View 1, supported by four Board members who do not support non-consolidation by investment entities and do not see the proposed disclosures as a remedy; and
- (b) Alternative View 2, supported by three Board members who, although preferring to issue the IASB's investment entity requirements in Australia unamended, can accept that proposing the additional disclosures in the ED is an appropriate compromise to maintain IFRS compliance.

The aim is to issue the ED before the end of the year.

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3. Substantive Enactment of Major Tax Bills

The Board received an analysis of the submissions it received on ED 226 *Withdrawal of Australian Interpretation 1039 Substantive Enactment of Major Tax Bills in Australia*, and considered issues raised in the submissions. The Board decided to:

- (a) withdraw Australian Interpretation 1039, effective from 1 January 2013, through an amendment to AASB 1048 *Interpretation of Standards*; and
- (b) issue a rejection statement (in the form of a Board Agenda Decision) on the issue of when it would be appropriate to conclude that substantive enactment of major tax Bills has occurred in Australia. The Agenda Decision will note that, in Australia, it would be rare that significant uncertainty about the passage of a major tax Bill through both Houses of Parliament would be removed before it has actually passed through both Houses.

The Board will vote on an amending Standard out of session before the end of 2012.

4. Financial Instruments

The Board received an update on the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with IFRS 9 *Financial Instruments* relating to classification and measurement, impairment and general hedge accounting.

The Board decided to write to the IASB to highlight the significance to Australian constituents of the requirements proposed in the IASB review draft standard on general hedge accounting. In particular, the Board will focus on the proposed requirements in paragraph B6.5.5 that would require foreign currency basis risk to be excluded from the measurement of the hedged item for the purpose of measuring hedge effectiveness of a hedging relationship that includes a cross-currency interest rate swap.

5. Application of AASB 10 to Unit Linked Funds in the Insurance Industry (AASB 1038)

The Board considered whether AASB 1038 *Life Insurance Contracts* might need to be amended for the revised consolidation requirements in AASB 10 *Consolidated Financial Statements*. The Board decided to proceed to issue an ED that proposes removing the explicit requirement in that standard for a life insurer to consolidate policyholders' interests, and thereby leave AASB 10 as the sole source for consolidation requirements. The ED will ask whether constituents would expect such an amendment to result in a change from current practice and, if so, why.

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6. Annual Improvements

The Board formed preliminary views on the proposals in IASB ED/2012/2 *Annual Improvements to IFRSs 2011-2013 Cycle* (AASB ED 229). The Board expressed general agreement with the IASB's proposals, with the exception of the proposed amendment to IAS 40 *Investment Property* to clarify the interrelationship with IFRS 3 *Business Combinations*. The Board was of the view that an amendment to IAS 40 would not adequately address the more fundamental need to improve the definition of a business in IFRS 3. Some Board members also queried the proposal that the amendment to IAS 40 is to be applied prospectively. The Board decided to finalise the submission to the IASB out of session, after considering any comments it receives on ED 229.

7. IFRS Interpretations Committee

The Board received an update on the decisions (both tentative and final) made by the IFRS Interpretations Committee at its November 2012 meeting, and discussions held by the Committee at that meeting.

The Board decided to write to the Committee regarding that Committee's tentative agenda decision in respect of accounting for reverse acquisitions of an entity that does not constitute a business. The Board was of the view that the issue would not be adequately dealt with through a rejection notice (for example, due to transition issues) and would more appropriately be dealt with as an Annual Improvement.

The Board also asked staff to contact Committee staff to alert them to possible implications in an Australian legal context of the Committee's discussion of accounting for mandatory purchase of non-controlling interests in business combinations.

Furthermore, in light of the Committee's discussion of the meaning of "elsewhere in the interim financial report" in paragraph 16A of IAS 34 *Interim Financial Reporting* (which is incorporated into AASB 134 of the same name) and the proposed requirement to include a cross-reference from the interim financial statements to the required disclosures, the Board asked staff to investigate further the implications of such a proposal in the Australian legal context.

8. Amendments to Standards

The Board considered draft versions of two amending Standards:

- (a) AASB 2012-X *Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments*, which would apply to annual reporting periods beginning on or after 1 January 2013, with early application permitted. The amending Standard would:
 - (i) revise the transition requirements in AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements* and AASB 12 *Disclosure of Interests in Other Entities*, based on amendments issued by the IASB in June 2012;

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- (ii) defer the mandatory application date of AASB 10, AASB 11, AASB 12, AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* for not-for-profit entities to annual reporting periods beginning on or after 1 January 2014; and
 - (iii) make editorial corrections to Australian Accounting Standards; and
- (b) AASB 2012-Y *Amendments to Australian Accounting Standards – Reduced Disclosure Requirements and Other Amendments*, which would apply to annual reporting periods beginning on or after 1 July 2013, with early application permitted. The amending Standard would:
- (i) amend AASB 10 and AASB 128 to extend the relief from consolidation and the equity method in respect of Tier 2 entities complying with Australian Accounting Standards – Reduced Disclosure Requirements; and
 - (ii) make further editorial corrections to Australian Accounting Standards.

The Board will vote on the amending Standards out of session before the end of 2012.

9. Revenue from Contracts with Customers

The Board received an update on the tentative decisions made by the IASB and the FASB in their November 2012 meeting on the Revenue from Contracts with Customers project. The Board expressed concern in relation to some of the IASB/FASB's tentative decisions, including the impact of the proposed model for accounting for licences. The Board requested staff conduct targeted outreach to determine Australian constituents' views on the IASB/FASB tentative decisions in relation to licences, and in particular, to consider how the tentative model would apply in the context of service concession arrangements from a grantor's perspective.

10. Income from Transactions of Not-for-Profit Entities

The Board considered a status report on progress with drafting an ED on Income from Transactions of Not-for-Profit Entities. The draft ED is based on IASB ED/2011/6 *Revenue from Contracts with Customers*, and includes draft 'Aus' paragraphs to address issues specifically affecting not-for-profit (NFP) entities.

The Board noted that the IFRS on Revenue from Contracts with Customers is targeted for issue by the IASB during the first half of 2013. The Board decided that, in view of the changes to IASB ED/2011/6 decided by the IASB in its redeliberations of that ED's proposals and the expected imminent issue of the IFRS, it would base the AASB ED on the text of the issued IFRS (modifying it for NFP entity specific issues), and would issue its ED seeking comments on those modifications as soon as the IFRS is issued. The timing of issue of the ED would therefore depend on when the IFRS is issued.

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11. Budgetary Reporting by Not-for-Profit Public Sector Entities

The Board considered the following Pre-Ballot Draft Standards:

- (a) AASB 105X *Budgetary Reporting*; and
- (b) AASB 2012-XX *Amendments to Australian Accounting Standard – Relocation of Budgetary Reporting Requirements*;

which were developed following consideration of comments on the budgetary reporting proposals in ED 212 *Not-for-Profit Entities within the General Government Sector*.

The Board decided that Pre-Ballot Draft AASB 105X should be amended to:

- (a) clarify the requirements relating to disclosure of explanations of major variances in regard to variances from revised budgets presented to parliament; and
- (b) acknowledge that the Standard has not envisaged all circumstances where budgetary reporting might be relevant, particularly when certain kinds of administrative restructures might take place during a year, but that the principles in the Standard could be applied in such circumstances.

The Board decided to make drafts of AASB 105X and AASB 2012-XX, reflecting its decisions at this meeting, available on the AASB's website for about 45 days, to provide constituents with an opportunity to identify any fatal flaws.

12. Transition Relief for Defence Weapons Platforms

The Board considered the submissions received on ED 227 *Proposed Amendments to AASB 1049 – Extension of Transitional Relief for the Adoption of Amendments to the ABS GFS Manual relating to Defence Weapons Platforms* and a Pre-Ballot Draft of AASB 2012-XX *Amendments to AASB 1049 – Extension of Transitional Relief for the Adoption of Amendments to the ABS GFS Manual relating to Defence Weapons Platforms*, which reflected Board members' decisions in response to the comments on ED 227.

The Board decided to proceed with finalising and issuing an amending Standard based on the Pre-Ballot Draft, to be applicable from 1 July 2012.

13. Differential Reporting: Research Project into Accounting by Certain Types of Lodging Entities

The Board received a comprehensive draft report from external researchers, on the research project into accounting by certain types of lodging entities. The research project was initiated with a view to addressing:

- (a) whether the population of entities being treated as non-reporting entities has consistent characteristics; and
- (b) the nature of the accounting policies adopted by those entities.

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The draft report focuses on the financial statement reporting practices of certain types of lodging entities that lodge financial statements with the Australian Securities and Investments Commission under the *Corporations Act 2001*. The draft report, amongst other things, includes the researchers' findings about:

- (a) the consistency in the population of entities currently being treated as non-reporting entities based on the criteria in Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity*;
- (b) the application of accounting standards, in particular their recognition and measurement requirements, by lodging entities; and
- (c) the quality of financial statements of those entities based on the nature of the accounting policies adopted and other factors.

The draft report also considers the financial statement reporting practices of various entities lodging with Consumer Affairs Victoria. The Board noted that a final report could cover the financial statement reporting practices of co-operatives and associations lodging with some other state registries (in addition to Victoria).

The Board will discuss the public policy implications of the research findings at future meetings. It is intended that the Board's preliminary views on those policy implications will be published concurrently with the publication of the researchers' final report.

14. The Conceptual Framework as a basis for a Disclosure Framework

The Board noted that various organisations have been undertaking research into matters relating to note disclosures, including the European Financial Reporting Advisory Group (EFRAG) and the US Financial Accounting Standards Board (FASB). The Board also noted that, as part of its Conceptual Framework project, the IASB is scheduled to host a Discussion Forum on Disclosures in Financial Reporting on 28 January 2013.

The Board noted that based on preliminary research undertaken by the Chairman, there could be merit in assessing the adequacy of the Conceptual Framework and considering whether there is a level within that Framework (between the objectives of financial reporting on the one hand and qualitative characteristics and the elements on the other) that should articulate the broad types of information that financial statements should convey, whether through notes or other means.

The Board decided to continue to monitor developments in this area and will give further consideration to the adequacy of the Framework and how it might be developed to facilitate consideration of presentation and disclosure issues in an holistic and conceptual way.

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15. Accounting Standards Advisory Forum (ASAF)

The Board considered a draft response to the IFRS Foundation's Invitation to Comment *Proposal to Establish an Accounting Standards Forum*, which is open for comment until 17 December 2012. The Board strongly supports the proposals for the formation of the ASAF and the proposed membership structure. Subject to the wording, it also supports the proposed commitments that members of the ASAF would be asked to sign up to. The Board's final letter will be available on the website.

16. IPSASB Report

The Board received a report on the December 2012 meeting of the IPSASB, particularly noting the following:

- (a) the IPSASB approved for issue Phase 1 of its Conceptual Framework, comprising four chapters addressing the role and authority of the Framework, the objectives and users of general purpose financial reporting, qualitative characteristics and reporting entity – the chapters are planned to be issued in January 2013;
- (b) progress on various IPSASB projects – presentation in general purpose financial reports (Phase 4 of the conceptual framework project), long-term sustainability of an entity's finances, service performance reporting, financial statement discussion and analysis, first-time adoption of IPSASs, and an update of its IPSASs on consolidation and joint arrangements; and
- (c) the IPSASB decided to consider draft criteria for determining whether a pronouncement should be an authoritative standard or non-authoritative guidance.

The IPSASB next meets in March 2013.

17. Board Membership

The Board farewelled Kris Peach (Deputy Chair) who retired after serving as a Board member for eight years, and Sue Highland, who retired after serving as a Board member for six years. The Board thanked Kris and Sue for their valuable contributions. The names of the two new Board Members will be announced in due course.

18. Recently Approved Documents

Since the last report (2 November 2012), two consultation documents were issued. They are:

- ED 229 *Annual Improvements to IFRSs 2011-2013 Cycle*, which incorporates IASB ED/2012/2. Comments to the AASB are requested by 4 February 2013 and to the IASB by 18 February 2013.

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- ED 228 *Equity Method: Share of Other Net Asset Changes*, which incorporates IASB ED/2012/3. Comments to the AASB are requested by 8 February 2013 and to the IASB by 22 March 2013.

19. Documents Open for Comment

The following documents are open for comment. AASB submissions to the IASB, IFRS Interpretations Committee, IFRS Foundation or IPSASB are published on the AASB website.

Originating Organisation	Document	AASB No.	AASB Due Date	Other Organisation Due Date
IFRS Foundation	Proposal to Establish an Accounting Standards Advisory Forum (Invitation to Comment)	–	–	17 December 2012
EFRAG	Towards a Disclosure Framework for the Notes (Discussion Paper)	–	–	31 December 2012
IASB	Annual Improvement to IFRSs 2011-2013 Cycle (Exposure Draft)	ED 229	4 February 2013	18 February 2013
IVSC	Investment Property (Discussion Paper)	–	–	1 March 2013
IVSC	Valuations of Specialised Public Service Assets (Exposure Draft)	–	–	1 March 2013
IASB	Equity Method: Share of Other Net Asset Changes (proposed amendments to IAS 28) (Exposure Draft)	ED 228	8 February 2013	22 March 2013
IASB	Classification and Measurement: Limited Amendments to IFRS 9 (Exposure Draft)	TBA	TBA	28 March 2013
IPSASB	IPSASs and Government Finance Statistics Reporting Guidelines (Consultation Paper)	–	–	31 March 2013
IASB	Clarification of Acceptable Methods of Depreciation and Amortisation (proposed amendments to IAS 16 and IAS 38) (Exposure Draft)	TBA	TBA	2 April 2013

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Originating Organisation	Document	AASB No.	AASB Due Date	Other Organisation Due Date
IASB	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (proposed amendments to IFRS 10 and IAS 28) (Exposure Draft)	TBA	TBA	23 April 2013
IASB	Acquisition of an Interest in a Joint Operation (proposed amendment to IFRS 11) (Exposure Draft)	TBA	TBA	23 April 2013
IPSASB	Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition (Exposure Draft)	–	–	30 April 2013
IPSASB	Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities (Exposure Draft)	–	–	30 April 2013

20. Board Minutes

The Board approved the minutes of Meeting 127, held on 31 October – 1 November 2012. These are now available on the AASB's website.

21. Next Meeting 20-21 February 2013

It is expected the Board will deal with the following items:

- Superannuation Entities
- Differential Reporting: Research Project into Accounting by Certain Types of Lodging Entities
- Financial Instruments
- Revenue from Contracts with Customers
- Application of AASB 10 to Life Insurers
- Service Concession Arrangements
- Consideration of IASB proposals in a range of EDs, including:
 - Clarification of Acceptable Methods of Depreciation and Amortisation

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- Equity method of Accounting: accounting for other net asset changes
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Acquisition of an Interest in a Joint Operation
- Annual Improvements to IFRS 2011-2013 Cycle
- Budgetary Reporting by Public Sector Entities

22. Future Meetings

The 2013 meeting dates are:

- 20-21 February
- 10-11 April
- 29-30 May
- 17-18 July
- 4-5 September
- 23-24 October
- 11-12 December

Unless indicated otherwise, meetings are held in Melbourne.

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